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SUBJECT: Dutch Opposition Leader Draws Flak for Economic Reform Ideas

REF: THE HAGUE 449

¶1. Summary: Opposition leader Wouter Bos used a May 1 speech and an appearance before a major social welfare conference April 28 to outline his proposals for reforming the Dutch welfare state. Social democrat Bos's ideas, which generally carry forward the structural reforms (increasing labor market flexibility, trimming early retirement incentives, etc.) initiated by the current center-right coalition, were nonetheless harshly criticized by the current coalition parties, as well as by union leaders and former PvdA VIPs. Despite the political flak, the PvdA leader's ideas may help to further such reforms in a possible future coalition government. End summary.

2.(U) According to current opinion polls, the opposition Labor Party PvdA is likely to come out on top in the Netherlands' 2007 general elections. Other parties invariably reproach PvdA's leader and possible future Prime Minister Wouter Bos for not saying where he stands. Last week, Bos took the stage at a conference on the future of the European welfare state to present his views on a number of socio-economic issues. Bos' proposals to cut distorting tax incentives essentially continue the present GONL's efforts to increase labor market participation through structural reforms. But with national elections only a year away, members of the ruling coalition denounced his proposals as going too far.

¶3. (U) Three leading Dutch think tanks brought together international experts, including 2000 Nobel Prize Winner James Heckman, to discuss the future of the European welfare state. The conference addressed the challenges of aging, globalization, and migration, and framed the choice for Europe as one between a US-style limited welfare state, or a Scandinavian model of social cohesion. Emboffs met with some of the key speakers at this conference earlier this year (reftel).

¶4. (U) Arguing that the composition of public spending is more important to the sustainability of the welfare state than is the level of spending, Bos proposes more spending on education, research, and innovation. More controversial measures include taxation of senior citizens to help fund the state pension, restricting mortgage interest deductibility, students paying back their grants according to income, and amending the life cycle savings plan that was introduced by the Balkenende government so that it is no

longer "abused" for early retirement. Bos would also lower the administrative barriers to firing workers.

¶15. (U) COMMENT Prime Minister Balkenende's ruling coalition government has spent the past two years implementing structural reforms to increase labor participation, especially among older workers, to trim eligibility for the Netherlands' much-abused disability system, and to reduce the maximum duration of unemployment benefits. Bos's proposals can be seen as the next step in this direction, and could help pave the way for a future coalition alliance. But in the run-up to the next elections, government and opposition remain in different corners, as Balkenende demonstrated by criticizing Bos for taking away people's certainties while increasing government control. Also, Bos' proposals do not go down well with PvdA's traditional labor union allies. He will need to bargain worker friendly measures to accommodate their wishes. Education is crucial to creating a more inclusive labor market, but labor laws are important too. As keynote speaker James Heckman noted, the US system's basis in individual incentives makes it inclusive by nature, while Europe needs to address the plight of those outside the labor market.

BLAKEMAN